

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6181

BILL NUMBER: HB 1294

NOTE PREPARED: Nov 25, 2013

BILL AMENDED:

SUBJECT: Tax Credits for Hiring Certain Individuals.

FIRST AUTHOR: Rep. Hale

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides a tax credit against state tax liability for a small business that hires an eligible individual as a full-time employee in Indiana. It defines an "eligible individual" as a veteran, an individual who is at least 50 years of age, or an individual who has been totally unemployed for each of the 26 weeks preceding the hiring date. The bill specifies that the amount of the credit for hiring an eligible individual is the lesser of: (1) the amount of the unreimbursed training expenses incurred by the taxpayer in hiring the eligible individual; or (2) \$1,000.

Effective Date: January 1, 2014 (retroactive).

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur additional expenses to revise forms, update instructions, and modify the existing tax processing system to implement this bill. The DOR's current level of funding and resources should be sufficient to administer this tax credit.

Explanation of State Revenues: *Summary* - This bill establishes a nonrefundable tax credit for small businesses who hire eligible individuals as full-time employees. An eligible individual is either a veteran, a person who is at least 50 years old, or a person who has been totally unemployed for 26 weeks prior to hiring. The credit is effective beginning in tax year 2014, so the revenue impact will likely begin in FY 2015. The credit could potentially reduce state General Fund revenue by an estimated \$47.1 M to \$63.9 M per year beginning in FY 2015. This estimate is derived from a simulation using data from the Quarterly Census of Employment and Wages, the Bureau of Labor Statistics (BLS), and a report on training expenses.

Additional Information - The bill defines a small business as an independently owned firm that employed no more than 150 employees on 50% of the working days in the preceding year, and the majority of its employees work in Indiana. If a business had no employees in the preceding year, it may not employ more than 150 employees on 50% of the working days in the current year to qualify for the credit. A small business may claim the credit for each eligible individual hired as a full-time employee during the taxable year. The credit for each eligible individual is equal to the lesser of the business's direct unreimbursed cost to train the eligible individual or \$1,000. The credit can be used to offset tax liabilities from the Individual Adjusted Gross Income Tax, Corporate Adjusted Gross Income Tax, Financial Institutions Tax, and Insurance Premiums Tax. Revenue collected from those taxes is deposited in the state General Fund. The credit is nonrefundable, but unused credits may be carried forward for up to nine years. Unused credits may not be carried back.

The revenue estimates are based on a simulation performed using an extract from the Quarterly Census of Employment and Wages. The extract is comprised of firms with employees in January 2013 and each firm's reported employment for CY 2012. The model only retains those firms that qualify as a small business. Next, the total number of new hires were reduced by the estimated probability that the full-time hire is a veteran, is at least 50 years old, or was unemployed for over 26 weeks and that the job will require training. These statistics were derived from the Jobs Openings and Labor Turnover report and the Current Population Survey published by the Bureau of Labor Statistics. After applying those statistics and adjusting for the interactions, the estimated number of qualifying hires is approximately 58,600.

The lower and upper range of the revenue estimate is based on the estimated additional employment from the reduction in the wage cost from the tax credit and the reported average training expenses per employee. The employment response is estimated to range from a 1% to 5% increase in employment for a 10% reduction in wage cost. A study released by the American Society for Training Development found that the average direct training costs per employee can vary from \$800 to \$1,605 depending the industry and the size of the firm.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: LSA Unemployment Payroll Reporting Database; BLS, *Employment by summary education and training assignment, 2010 and projected 2020*, Employment Projection Program, February 1, 2012. BLS, *Total Private Hires 2003-2012*, Job Openings and Labor Turnover Survey, Retrieved on September 16, 2013. BLS, *Total Private Layoffs and Discharges 2003-2012*, Job Openings and Labor Turnover Survey, Retrieved on September 16, 2013. BLS, *A-12. Unemployed persons by duration of unemployment*, Current Population Survey, September 6, 2013. BLS, *Table 48. Employment status of persons 18 years and over by veteran status, age, and sex*, Current Population Survey, February 5, 2013. BLS, *Table 33. Unemployed jobseekers by sex, age, race, Hispanic or Latino ethnicity, and active jobsearch methods used*, Current Population Survey, February 5, 2013. Miller, Laurie, *ASTD 2012 State of the Industry Report: Organization Continue to Invest in Workplace Learning*, November 8, 2012, Accessed on September 17, 2013. Sasser, Alicia, *New England Public Policy Center: The Potential Economic Impact of Increasing the Minimum Wage in Massachusetts*, January 2006;

Fiscal Analyst: Heath Holloway, 232-9867.